Husky

Husky Oil 1976 Annual Report

NEW CORPORATE IDENTIFICATION PROGRAM UNDERWAY

From stationery to service stations, and from transport trucks to storage tanks, the entire Husky organization is undergoing changes in its identity designs. Started about a year ago, the updating of the company's visual image is underway with new paint jobs, new signs and new designs for outlets.

The new program provides an updated Husky look but retains such fundamental elements as the Husky dog and the ellipsoid surrounding the company name.

The new basic logo consists of white letters on a blue background and presents a different style in the lettering. The Husky dog will be used in various applications, including the new service station designs, and will be orange on a white background. In addition to the traditional Husky colors of orange, blue and white, a tan shade will be used on vehicles.

This report shows elements of the new corporate identification program as it is being phased into Husky's operations.

ANNUAL MEETING

The Annual General Meeting of Shareholders of Husky Oil Ltd. will be held in the Calgary Convention Center, Calgary, Alberta, on April 13, 1977. Formal notice of this meeting and proxy material are enclosed.

FORM 10-K

Copies of the Company's 1976 annual report on Form 10-K filed with the United States Securities and Exchange Commission, including financial statements and exhibits, will be provided without charge to shareholders who send written requests to the Office of the Secretary of the Company at Husky Oil Ltd., 815 - 6TH STREET S.W., CALGARY, ALBERTA, CANADA T2P 1Yl.

Highlights of Operations

Financial

	thousands of dollars 1976	1975
Sales and operating revenues	**$522,357**	$454,391
Working capital provided by operations	**73,953**	78,016
Net earnings	**30,025**	36,018
Net earnings per common share (in dollars)	**3.02**	3.64
Capital expenditures	**99,407**	68,131
Working capital at end of year	**49,248**	39,746
Long-term debt at end of year	**142,543**	100,473

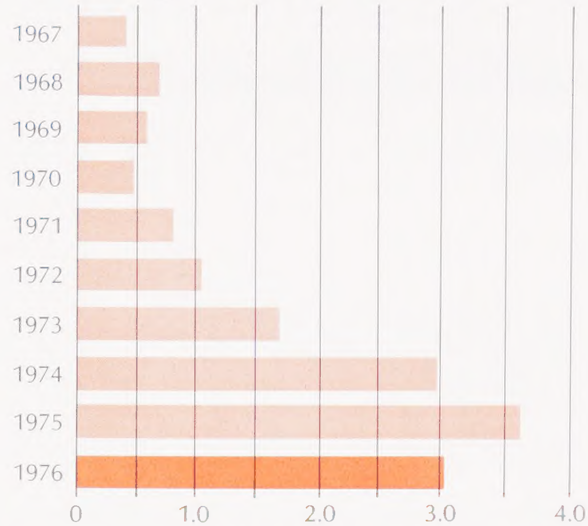
Operations

Gross crude oil and gas liquids production (barrels daily)	**44,726**	51,782
Net crude oil and gas liquids production (barrels daily)	**37,301**	43,949
Gross natural gas production (MCF per day)	**73,828**	74,511
Net natural gas production (MCF per day)	**55,618**	58,994
Refinery runs (barrels daily)	**55,719**	56,220
Refined product sales (barrels daily)	**64,895**	60,541
Number of sales outlets	**1,201**	1,115

Year in Brief

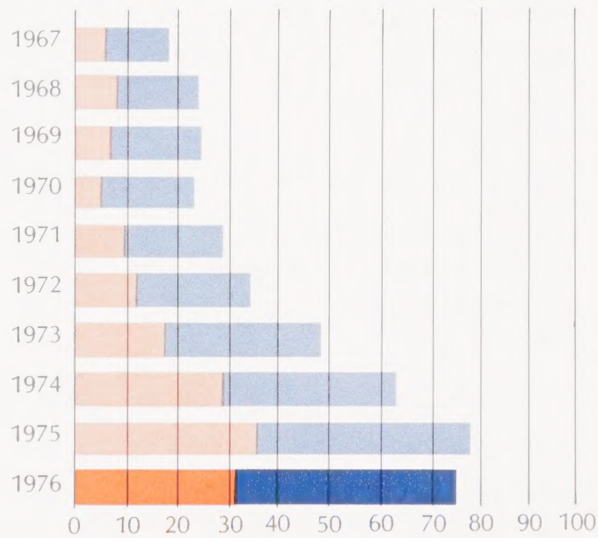
Pages

Net Earnings Per Share* In Dollars

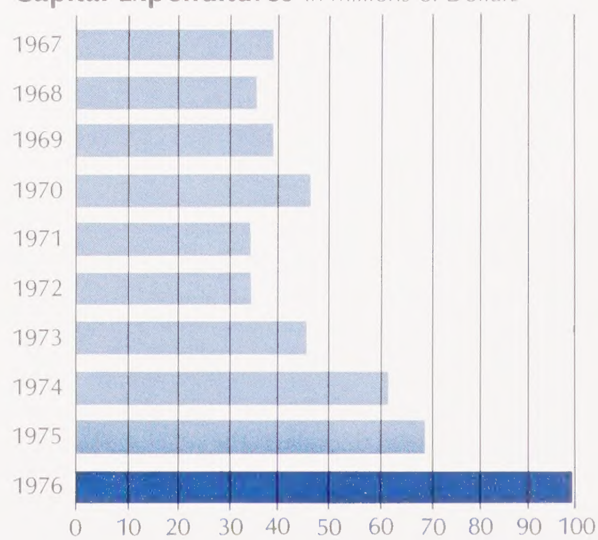


*Earnings from operations including extraordinary items

Net Earnings *In Millions of Dollars*
Working Capital from Operations



Capital Expenditures *In Millions of Dollars*



Letter to Shareholders

As in the past, and it still holds true today, the first thought that comes to mind in reviewing Husky's 1976 activities is the contribution made by our employees. Their dedication and loyalty to the accomplishment of our goals and programs, and their skills are invaluable. We are justifiably proud of our people — they are the life-blood of Husky.

In review, Husky's 1976 net earnings of $30.0 million, or $3.02 per share, represented a 5.7 percent return on gross revenues of $522.4 million for the year. In 1975 our earnings were $36 million, or $3.64 per share, which represented a 7.9 percent return on that year's gross revenues of $454.4 million. Husky's 1976 return on average total assets invested was 6.2 per cent compared to 8.7 percent in 1975. The decline in 1976 earnings was primarily due to increased cost of crude oil supplies to our United States refineries that was not recovered in asphalt and heavy fuel markets.

1976 saw significant progress for Husky in many of our activities with gains being made toward the accomplishment of our stated goals and objectives. We have continued to follow a policy of operating as an integrated company with a wide geographic base. Briefly, I would like to repeat our corporate goals and objectives:

— maintain or increase our cash flow and sales volumes;

— reduce our sensitivity to seasonal markets;

— continue to work toward balancing our production and refining and marketing volumes within both Canada and the United States;

— ensure that organizationally there is expertise at all levels of management; and

— to keep our financial structure flexible to accomplish both our short and long term objectives and to capitalize on opportunities as they occur.

We had a very active, broadly based exploration program this past year, one of the largest in our company's history as well as one of our most successful. A good number of these discoveries were on prospects developed by our exploration department. Some of our significant exploration successes in 1976 included natural gas discoveries offshore Louisiana and in New Mexico, follow-up drilling at Quirk Creek, Alberta and oil discoveries in Wyoming and in eastern Nevada. Shallow natural gas discoveries were made in Eastern and Central Alberta and in the Wind River Basin of Wyoming. The oil discovery in Wyoming is about two miles from our Cody refinery. Early in 1977 we had a natural gas discovery in the Paradox Basin area of South Eastern Utah. Exploration activity will continue to be a high priority in 1977.

The acquisition of 110 service stations in Western Canada and associated properties and a refinery at Prince George, British Columbia is a step toward increasing our Canadian marketing and refining volumes. Important long term contracts were concluded for the supply of light oil products in Canada and the sale of a significant amount of our Lloydminster production. Because of changes in market conditions and construction economics, plans for the construction of a new refinery at Lloydminster were deferred in mid-1976. We are presently studying the feasibility of a heavy crude oil upgrading facility in the Lloydminster area.

We are gratified to see increased attention being devoted to the potential contribution heavy oil reserves can make to North America's immediate and future energy needs. Long overdue recognition of the value of these vast accumulations is beginning to emerge. Our historical involvement in heavy oil in both Canada and the United States, together with our position in current and potential areas of this type of production, places Husky in an advantageous position to participate in the development of this valuable resource. Crude oil production at our Lloydminster field, which was cut back to two-thirds capacity last fall, is presently being increased to full capacity because of a change in export regulations and the opening of markets for this oil in the United States.

In our Lloydminster area, which spans the border of Alberta and Saskatchewan, we have the largest inventory of potential undrilled, low risk locations in our history. We have recently completed a detailed analysis of oil in place in the region and have increased earlier estimates of oil in place of 4 billion to 12 billion barrels. Husky's interest in this region is about 1.6 million acres of about 4 million acres involved in the study. This, together with our interests in the Cold Lake and Athabasca areas of Alberta and our growing involvement in California, where large quantities of heavy oil in place have also been identified, is one of the important foundations we have upon which to build our future.

Capital expenditures have been directed toward accomplishing our goals. Last year Husky spent $99.4 million for capital projects, of which $62.4 million was for regular work programs. In 1977 we anticipate we will be spending about $116 million. $75.4 million will be for regular work programs, of which $53.4 million will be for exploration and production development. $41 million will be spent on three special major projects. Two of these will be the modernization and upgrading of our refineries at Cheyenne, Wyoming and Prince George, British Columbia. The Cheyenne refinery modification program will increase our light oil supply and reduce our sensitivity to the seasonal markets for asphalt and heavy fuel oils, in line with our stated corporate goal. The Prince George project will increase the capacity and efficiency of that plant and will provide us with more light oil products. The third project is the construction of an offshore production platform and the drilling of development wells on our offshore Louisiana natural gas discovery.

1977 began with a marked increase over a year ago in government involvement in our industry. Management today is

even more involved in analyzing and assessing the effect of increased government regulations on our operations in addition to communicating our position to those in the various levels of government.

In spite of the problems associated with increased governmental intervention, I believe we are making progress.Many of the governmental bodies in both Canada and the United States seem to be gaining a better understanding and appreciation of the oil industry. This has mainly come about through the increased efforts of our industry to communicate the facts concerning the effect government intervention and overregulation has had on the North American consumer.

The federal governments of Canada and the United States are now working more closely together for the mutual benefit of both countries' residents. A coordinated program by both countries wherein Canadian heavy crude export regulations and U.S. allocation rules will interface is becoming a reality that will benefit both countries.

Unfortunately, there still remain those politicians, particularly in the United States, who for short term political gain or some other reason and lacking statesmanship and understanding, are attempting to place the energy industry in the "scapegoat" role for displacements in the availability of energy supplies. These politicians accuse the industry of withholding supplies of oil and natural gas for its own selfish gains; however, when these accusations are exposed to the light of factual information they disappear. Hopefully, the voters will begin to realize the disservice being done by these government representatives.

Husky and the entire energy industry must continue to give the public the facts regarding the energy situation. We must tell and retell our story until the public is fully aware of the facts. Only an informed and aroused public can compel the "politicians" to become statesmen with more concern for the public's long term best interest. I believe this can be done.

Glenn E. Nielson

GLENN E. NIELSON,
chairman of the board

James E. Nielson

JAMES E. NIELSON,
president

Review of Operations: Exploration

Husky experienced a very successful exploration program in 1976, drilling several oil and natural gas discoveries. The discovery wells were located primarily in the Rocky Mountain Region of the United States, and in the Lloydminster area and Eastern and Central Alberta of Canada. Outside these areas a significant natural gas discovery was made offshore Louisiana.

The discovery well drilled offshore Louisiana was on Husky's Vermillion Block 329 in 220 feet of water about 90 miles offshore. Multiple pay zones were encountered in the well, and deliverability tests were conducted on three zones between

5,000 and 6,000 feet. Each zone tested gas at rates approximating 7 million cubic feet against high back pressures. These flow rates were restricted by the size of the testing equipment on the rig. A four-pile, eight-slot production platform is under construction for the development of this natural gas reserve. Development drilling is expected to begin in mid-1977.

In Wyoming, Husky discovered oil in the South Shoshone prospect in Park County approximately two miles from our Cody Refinery. Its initial production rate exceeded 200 barrels per day of 21° gravity oil. This is in contrast to the 16-19° gravity oil produced from the Shoshone field immediately north of this discovery.

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In the Wind River Basin of Wyoming, Husky has a 30 percent interest in the Fuller Reservoir well which was drilled to 17,000 feet. Numerous gas zones were indicated between 4,000 and 9,000 feet. Two of these zones between 4,300 and 4,800 feet were drill stem tested and flowed natural gas at rates approximating 4 million cubic feet per day. The indicated natural gas zones will be evaluated by additional drilling on the structure.

Husky is a partner in the group which discovered Nevada's second oil field late in 1976. The discovery well drilled in the Railroad Valley area of eastern Nevada discovered oil in a section of fractured volcanics. On initial completion, the well produced oil at a rate in excess of 600 barrels per day. New pumping equipment has recently been installed in the well which has increased the production rate to over 1,400 barrels of oil per day. The first offset well to this discovery has been completed and is producing between 50 and 100 barrels per day. A second offset well tested oil on drill stem testing and is now being completed. A fourth well on the structure is currently drilling. Though Husky has a 16 percent interest in the discovery well, we have an 11 percent interest in the subsequent wells and in the group's 240,000 acre land position in the area.

In Southeast New Mexico, Husky continued an active exploration program to develop oil and gas in the deeper horizons on acreage which has been held by shallow production. We have experienced a good success ratio, and are developing new gas reserves for the Company.

An exploratory well, which began drilling late in the fourth quarter of 1976, discovered hydrocarbons in the Paradox Basin south of Moab, Utah about four miles from the existing Lisbon oil and gas field. A drill stem test in the Mississippian flowed natural gas at a rate of 7.4 million cubic feet per day. The well is currently being tested to establish whether it should be classified as a gas well producing low BTU gas, or as an oil well producing high gravity oil. Husky has a 37-1/2 percent interest in this discovery Husky has a significant interest in approximately 220,000 acres in the Paradox Basin.

Husky and its partners are drilling an exploratory well in the Tanner Banks area, offshore California. The well is being drilled on Tract 114 where Husky has a 10 percent interest.

In Canada, Husky continued an active exploration program in the Lloydminster area. Though some exploration was carried out in Saskatchewan, the majority of the program was concentrated in Alberta. The program included the drilling of 21 exploratory wells which resulted in 9 oil wells and 6 natural gas wells, a seismic program, and further land acquisition. In the past, Husky has concentrated on developing heavy oil in the

1 Racking pipe during a drilling bit change. 2 James A. Williams, Senior Vice-President, Exploration and Production. 3 Adding a length of pipe to the "string" of drill pipe downhole. 4 Evaluating a well — United States exploration group. 5 Foothills exploration well — Quirk Creek, Alberta.

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Lloydminster region, but is now adding emphasis to the development of shallow natural gas.

In the Quirk Creek area of southern Alberta, two gas wells were drilled as offsets to Husky's well which discovered deep natural gas in the northern sector of the Quirk Creek 28,000 acre tract. This discovery well and these two offset wells have been tied into the Quirk Creek gas plant, and have the ability to produce in aggregate, at the rate of approximately 20 million cubic feet per day.

A deep test to 15,500 feet is being drilled in the southern sector of Quirk Creek acreage. Further exploration activities in the area will depend upon the results of this well, and the production history of the northern three wells. Husky has a 42 percent working interest in the deeper horizons of the Quirk Creek tract.

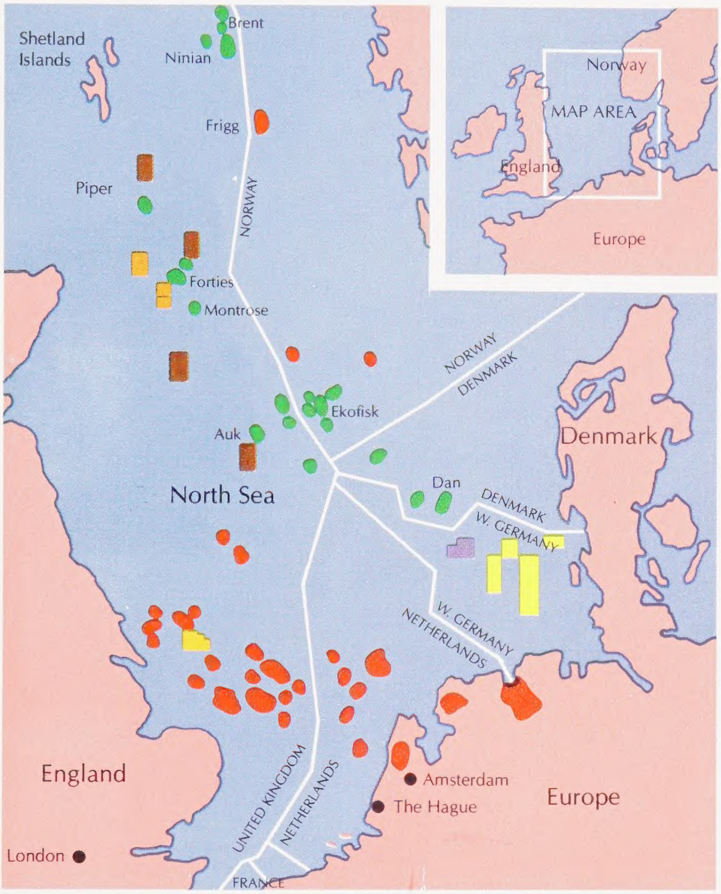
Much of Husky's exploration efforts in Canada in 1976 were in the search for shallow gas in Eastern and Central Alberta. This exploration program was tied closely to a development program which included drilling step-out wells from known gas accumulations, the construction of gathering systems and land acquisitions. The program was coordinated with the gas exploration in the Lloydminster area. Through this combination of exploration and development programs for shallow gas, the Company developed the ability to produce approximately 30 million cubic feet per day of shallow natural gas.

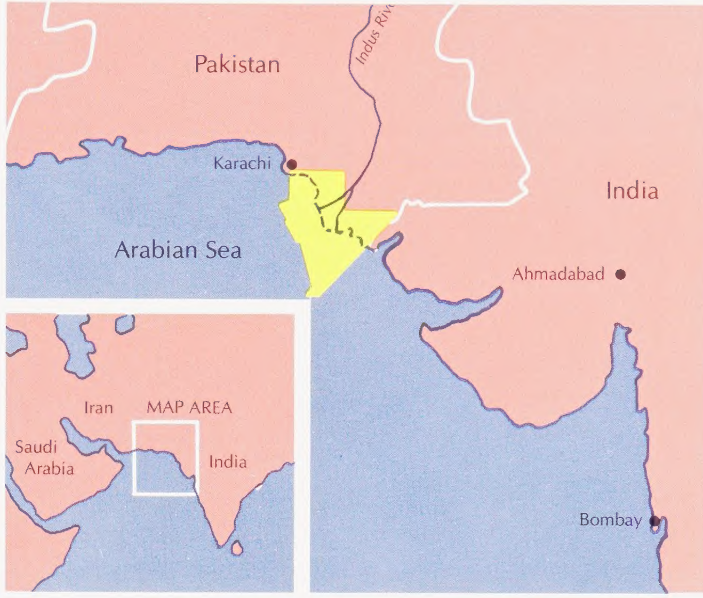
In the Philippines, Husky participated in the Nido #1 offshore exploratory well, which established the presence of hydrocarbons in the Northwest Palawan Shelf. This well is very significant, as it was the first well to discover hydrocarbons in the Philippines offshore. The Nido #1 well was deemed non-commercial and abandoned. A follow-up well drilled later in the year has also been abandoned. Husky has a 30 percent working interest in 1.3 million acres in one concession on the Northwest Palawan Shelf, and a 16-2/3 percent working interest in another concession covering more than 2 million acres on the Northwest Palawan Shelf.

Husky entered into an exploration concession agreement with the Government of Pakistan to explore approximately 6,800 square miles (4.4 million acres). The concession covers the delta area of the Indus River, and is approximately one-half onshore and one-half offshore. Husky has a 95 percent working interest with the Government of Pakistan as a 5 percent working interest partner. The initial work in this area has included a geological study and a re-evaluation of seismic data gathered by other companies in the early 1960's. A marine seismic program offshore and up the channels of the Indus River was conducted late in the year. An onshore seismic program is currently in progress.

In the North Sea, Husky participated in the drilling of three wells; two in the United Kingdom sector and one in the German waters. All were abandoned, though the well drilled on Block 16-26 in the U. K. sector encountered hydrocarbons in two zones, but was deemed non-commercial following production testing. The Company expects to have an active drilling program in the North Sea in 1977.

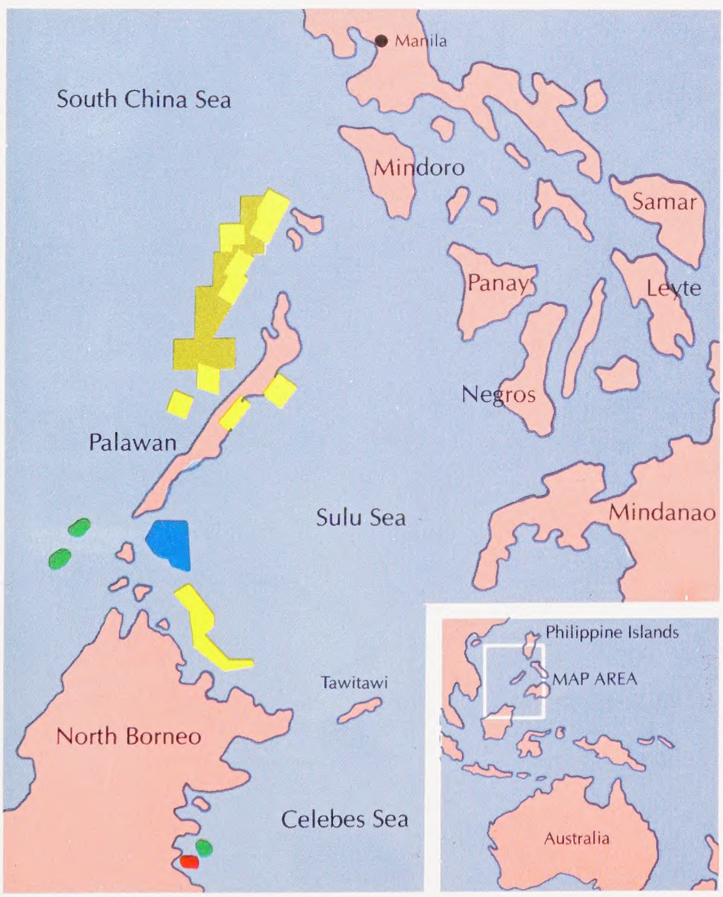
1 Hydraulic tongs tightening an added length of drilling pipe. 2 Reviewing potential drilling areas — Canadian exploration group. 3 Offshore drilling rig.





North Sea Acreage Interest

- United Kingdom Sector 10%
- United Kingdom Sector up to 5%
- West German Sector 12.5%
- West German Sector up to 15%
- Oil Fields
- Gas Fields



Areas are not shown to scale

Philippines Acreage Interest

- 2,134,521 acres
- 685,305 acres
- 1,278,000 acres
- Oil Fields
- Gas Fields

Pakistan Acreage Interest

- 4,352,000 acres

Husky Oil NPR Operations, Inc.

During 1976, Husky management and field personnel operating from a central office at Anchorage, administered an extensive geophysical program and drilled a well on United States Naval Petroleum Reserve Number Four (NPR4) covering 24 million acres on the North Slope of Alaska (about the size of the state of Indiana). Husky was selected in mid-1975, as operator, to explore and develop the Naval Petroleum Reserve in an agreement involving a five year cost plus fixed fee contract. Further substantial geophysical work and exploration drilling are presently underway.

Production

Husky's oil and natural gas production cash operating income in 1976 improved 6 percent over 1975. This income improvement was due primarily to higher 1976 oil and natural gas prices, as production volumes were lower in 1976. In Canada, the Federal and Provincial Governments permitted the price of crude oil to increase $1.05 per barrel on July 1, 1976. Part of this crude price increase was passed on to the producer, and is reflected in Husky's operating results in the last half of 1976.

Husky's gross crude oil production averaged 44,700 barrels per day during 1976, compared to 51,800 barrels per day in 1975. Net crude oil production declined to 37,300 barrels per day

from 43,900 barrels per day the previous year. The decline was mainly caused by prorationing of the production in Husky's Lloydminster oil fields in the latter part of the year and by changes in the royalty system in the Province of Saskatchewan.

Beginning last winter and continuing into the summer of 1976, some of Husky's traditional heavy oil markets in the United States became unavailable due to government restrictions on the export of crude oil to the United States.

This led to a surplus of heavy oil in Western Canada, because Eastern Canadian refiners are not equipped to process the lower gravity crude from Lloydminster and other heavy oil fields. In recognition of this situation, and of the substantial accumulations of heavy oil located in Lloydminster and other Western Canadian areas, the National Energy Board recently decided to separately license heavy crude volumes, in excess of Canadian needs, for export to the United States.

In addition, Husky has recently entered into an agreement in which it will sell 25,000 barrels per day of Lloydminster crude blend to another company in Canada for a three-year period beginning July 1, 1977, with provisions to continue beyond that period.

As a result of these circumstances, Husky has discontinued all prorationing in the Lloydminster area and 550 previously shut in Husky operated wells are being reactivated.

In November, the Saskatchewan Government instituted a change in its method of revenue collection on oil and natural gas production. Although the amount of revenue to the producer has remained essentially unchanged, the new method has the effect of reducing a producer's net crude oil production volumes. Husky's net crude oil reserves in Saskatchewan are also reduced as a result of this change.

Gross natural gas production in 1976 averaged 73.8 million cubic feet per day, compared to 74.5 million cubic feet per day in 1975. Net natural gas production averaged 55.6 million cubic feet per day, a decline of 3.4 million cubic feet per day. The decline in net natural gas production is due to curtailed production conditions in Alberta, as industry production volumes have exceeded the capacity of transmission lines to service natural gas markets in other parts of Canada and the United States. Husky has the immediate capability of increasing natural gas production in Alberta as additional deliveries to the pipeline become available.

Due to exploration and exploitation success in 1976, Husky enters 1977 with production development opportunities in both the United States and Canada. During 1976, Husky was involved in step-out drilling on the edge of the Rangely Field in Northern Colorado. This program has established a possible fifteen additional development locations in which Husky has 50 to 75 percent working interests. The wells being drilled in this area have been exhibiting initial production rates in excess of 100 barrels per day.

In California, the Company has available a number of low risk development locations in the Santa Maria Basin. These properties will be developed as additional markets become available for this crude.

Due to the success of the 1976 exploration program, the Company will have available development locations in Wyoming, New Mexico, and offshore Louisiana.

In Canada, the Company has the largest inventory in our history of low risk development locations in the Lloydminster area. These include prospects for the development of heavy oil and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1 Checking pipeline meter. 2 Lloydminster field operations. 3 and 4 Development drilling. 5 Heavy oil seminar.

natural gas in Eastern and Central Alberta. As a result of the 1976 shallow gas program, the Company has available follow-up drilling prospects. This development will be pursued as the ability to move gas to the eastern markets is improved.

A recently concluded Husky study has increased the estimate of oil in place in the Lloydminster heavy oil region of Alberta and Saskatchewan from 4 billion barrels to 12 billion barrels. Husky's interests in the region include about 1.6 million acres of the just over 4 million acres involved in the study. This area extends about 100 miles east to west, and about 65 miles north to south spanning the provincial borders.

Husky has been conducting research and experimental programs for many years in the area to evaluate enhanced recovery techniques. Methods tested included thermal stimulation of producing wells through the injection of steam into the underground formation, polymer flood and combination thermal drive. The latter method involves controlled ignition of a portion of the oil underground to create oil movement towards the producing wells.

Similar programs are underway to develop Husky's holdings of heavy oil properties in California. Production volumes from California properties were up only marginally in 1976 over 1975 due to limitations in marketing the heavy, sour crude in the West Coast area of the United States.

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PROVEN NET RESERVES

as at December 31

	1976	1975
Crude Oil (barrels)	**99,671,000**	119,569,000
Natural Gas (thousands of cubic feet)	**267,808,000**	245,678,000

PROBABLE NET RESERVES

Crude Oil (barrels)	**18,267,000**	27,729,000
Natural Gas (thousands of cubic feet)	**37,538,000**	80,962,000

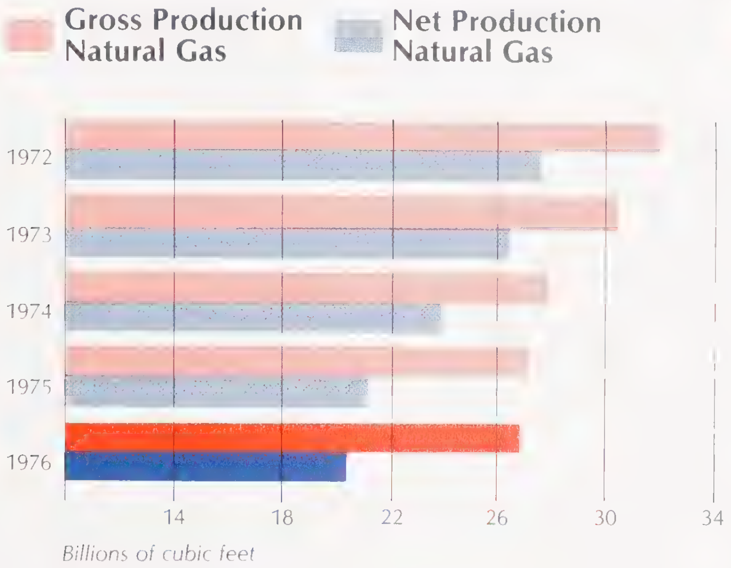
COMBINED PROVEN AND PROBABLE NET RESERVES

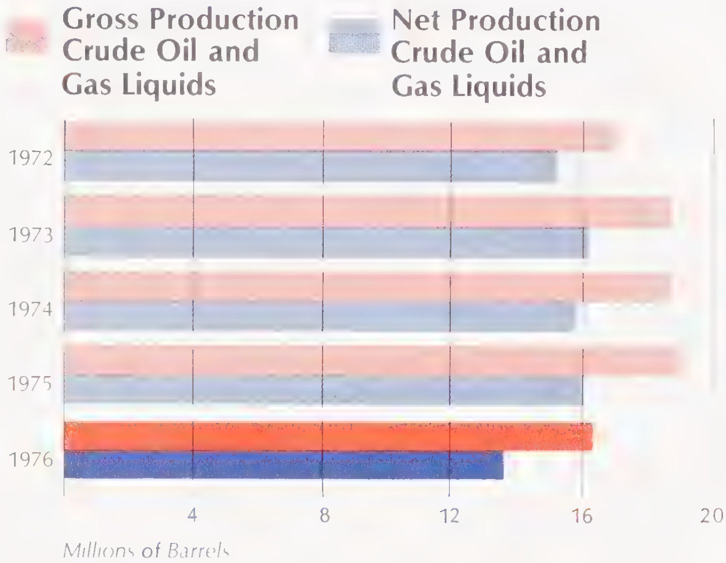
Crude Oil (barrels)	**117,938,000**	147,298,000
Natural Gas (thousands of cubic feet)	**305,346,000**	326,640,000

1 Lloydminster drilling. 2 Testing crude oil for water and sediments.

	Gross Wells			
	Oil	Gas	Dry	Total
Exploratory Drilling	5	29	43	77
Development Drilling	136	33	25	194
....	141	62	68	271

	Net Wells			
	Oil	Gas	Dry	Total
Exploratory Drilling	4	16	24	44
Development Drilling	54	13	21	88
....	58	29	45	132





SUMMARY OF GROSS AND NET PRODUCTION

	Oil and Gas Liquids Thousands of Barrels				Natural Gas Millions of Cubic Feet			
	1976		1975		1976		1975	
	GROSS	NET	GROSS	NET	GROSS	NET	GROSS	NET
CANADA								
Alberta	**2,838**	**2,148**	3,576	2,783	**15,572**	**10,581**	15,905	11,910
Saskatchewan	**854**	**739**	1,004	887	**822**	**730**	843	739
Lloydminster	**6,399**	**5,587**	7,966	7,131	**2,084**	**1,869**	1,836	1,707
Total CANADA	**10,091**	**8,474**	12,546	10,801	**18,478**	**13,180**	18,584	14,356
UNITED STATES								
Colorado	**769**	**600**	728	566	**122**	**114**	133	125
Montana	**216**	**185**	233	200	—	—	—	—
New Mexico	**791**	**677**	795	682	**4,482**	**3,732**	4,668	3,895
Texas	**396**	**325**	450	371	**1,129**	**977**	1,196	1,041
Wyoming	**2,842**	**2,390**	2,911	2,455	**1,928**	**1,658**	1,855	1,567
Other Areas	**1,220**	**964**	1,238	967	**808**	**640**	761	549
Total UNITED STATES	**6,234**	**5,141**	6,355	5,241	**8,469**	**7,121**	8,613	7,177
TOTAL CANADA & UNITED STATES	**16,325**	**13,615**	18,901	16,042	**26,947**	**20,301**	27,197	21,533

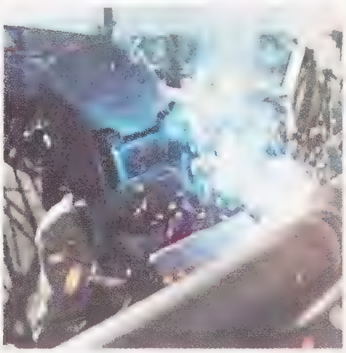
Refining and Marketing

On April 23, 1976, Husky announced the signing of an agreement to purchase the refining and marketing operations of Union Oil Company of Canada Limited. The agreement, which involved a payment of $33 million together with an adjustment for inventory evaluation at the closing date, added 110 service stations. This is a 42 per cent increase in the number of Husky's Canadian outlets. Also involved is an 8,000 barrel per day refinery at Prince George, British Columbia to be added to Husky's present Canadian marketing and refining system.

The transaction was approved by the Foreign Investment Review Agency of Canada and was subsequently closed with an effective date of November 1, 1976.

Following this acquisition, Husky has a total of 5 refineries located at Cody and Cheyenne in Wyoming, at North Salt Lake in Utah, At Lloydminster in Alberta and at Prince George in British Columbia.

The Cheyenne and Cody refineries produce no-lead and low-lead gasolines and a range of other light oil products, along with asphalts and heavy oils. The Salt Lake refinery produces primarily light oil products and a high quality, low sulphur fuel oil. The Lloydminster plant produces premium asphalt for consumption in the prairie provinces of Western Canada.



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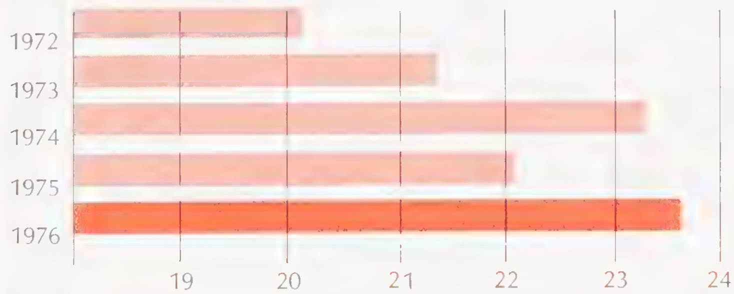
The refinery at Prince George is to undergo extensive modifications to de-bottleneck the existing plant. The modifications are designed to increase the plant's crude oil processing capacity from 8,000 barrels per day to 10,000 barrels per day. On completion of the expansion, the plant will produce approximately 4,200 barrels per day of gasolines and 4,100 barrels per day of distillates, which is double its current capacity.

In addition to the light oil products available, Husky will also have available grade "A" asphalt for the paving requirements in British Columbia. This change of operations will be accomplished through the installation of a fluid catalytic cracking unit plus associated facilities.

At Cheyenne, a construction program is planned for 1977 to improve the refinery's ability to convert heavy ends and asphalts to gasoline and fuel oil. The project will also give the plant greater flexibility to handle various types of crude oil feedstocks. It will involve the consolidation of crude processing units with the addition of delayed coking units and associated facilities while increasing the throughput capacity from 25,000 to 30,000 barrels per day. It is expected the modification program will be completed and on stream by mid-1978 and will reduce Husky's sensitivity to seasonal asphalt and heavy fuel oil markets.

Plans for the construction of a new 30,000 barrel per day refinery at Lloydminster, announced late in 1975, were deferred in July, 1976. The plans were deferred because of changes in market conditions and construction economics. Currently, Husky is examining alternative designs for a new Lloydminster crude oil upgrading facility with a future capability of handling all types of heavy crude oils from Western Canada.

Refined Product Sales *Barrels in Millions*



Refinery Runs

	Thousands of Barrels	
	1976	**1975**
Refinery		
Cheyenne, Wyoming	**8,331**	8,752
Cody, Wyoming	**4,102**	3,918
Salt Lake City, Utah	**4,135**	4,063
Lloydminster, Alberta	**3,368**	3,787
Prince George, British Columbia	**402**	—
Total	**20,338**	20,520

1 Recently acquired Canadian marketing outlet receiving the new Husky look. 2 Welder - refinery maintenance. 3 Pipeline pressure gauge check. 4 Cheyenne refinery, Wyoming. 5 Cody Refinery, Wyoming.

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MARKETING

A corporate reidentification program instituted throughout the entire company late in 1976, includes new service station and car/truckstop design features, together with new designs for transport vehicles and marketing outlet signs.

A number of outlets have already been equipped in the new design which will become part of Husky's continuing general program of upgrading marketing outlets. The new designs and signs are currently being installed at service stations acquired from Union Oil Company of Canada Limited in November. This acquisition of the 110 service stations complements our present activities and expands our marketing to new areas within Alberta, British Columbia and Yukon Territory.

As a result of the transaction and other new construction, Husky now has a total of 379 marketing outlets from British Columbia to Ontario in Canada. Full integration of the acquired operation is proceeding smoothly and as planned.

A new concept has been implemented in Husky's Canadian light oil marketing. Known as "rack pricing", this program incorporates uniform prices to all classes of trade and a new approach to rental income. This has resulted in increased volume and profitability for both Husky and its jobbers and dealers.

Husky has entered into an agreement with a major refiner in Canada to process crude oil into finished products. This new agreement is an expansion of one now in existence and will be for an initial three year period commencing January 1, 1978, with provisions to continue thereafter and provides for distribution of finished products throughout Husky's marketing systems. This volume of product augments Husky's own supply of light oil products manufactured at the Prince George refinery.

The conversion of certain existing marketing outlets to a self-serve program, a major marketing development in Husky, proceeded throughout 1976 and has resulted in significant sales volume increases at the locations completed by the end of the year.

1 Marketing outlet before identification change. 2 Credit card data processing. 3 New identification and color design.

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Husky's marketing activity continues to emphasize the company's unique car/truckstop system which extends along the TransCanada Highway from Ontario to British Columbia in Canada and includes strategically spaced locations on interstate highways in the intermountain and western regions of the United States.

Car/truckstops, large high volume outlets, are designed to service the commercial trucker as well as the traveling motorist. They feature 24-hour service, an integrated Husky House restaurant and complete service facilities for recreational vehicles.

A new product development department has been created to explore more market possibilities for all hydrocarbons. This department is examining alternate uses and potential markets for both light and heavy oil products and asphalts.

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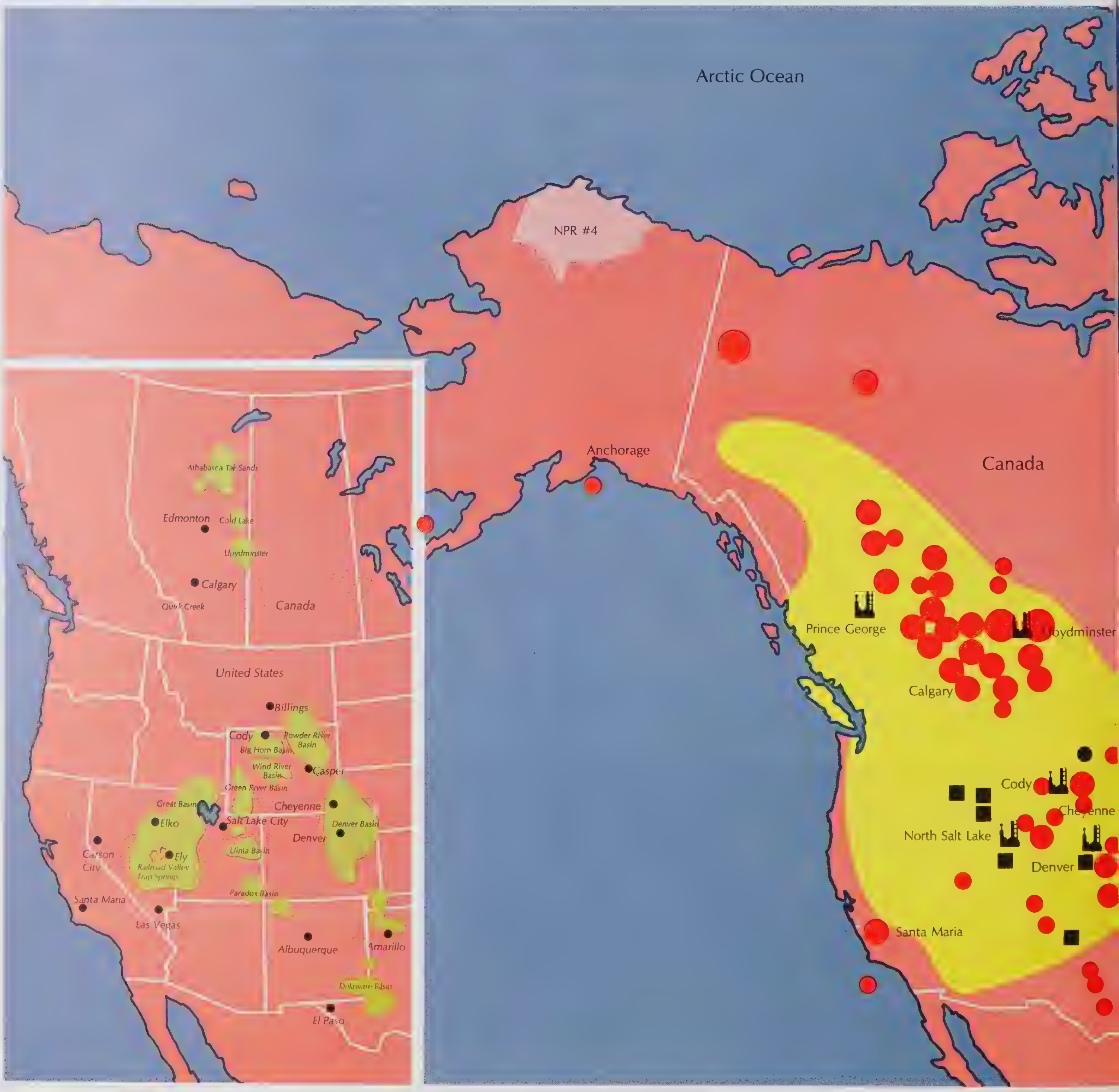
1 J. M. Wilkinson, Senior Vice-President, Refining, Marketing, Supply and Distribution and J. V. Sheffield, Vice-President, Refining. 2 Recently acquired service station with new Husky logo, Banff, Alberta. 3 Reviewing microfiche records. 4 Frank Cestnik — 38-year Husky employee. 5 and 6 Artist's rendering: new self service station and car/truckstop design.

North America

Areas of Active Oil and Gas Exploration
Marketing Area
Refineries
Gate City Steel
Husky Industries

Areas are not shown to scale.



Net Acreage Holdings And Rights On December 31, 1976 (Thousands of Net Acres)

Canada	
Developed	336
Undeveloped	2725
TOTAL	3061

United States	
Developed	40
Undeveloped	996
TOTAL	1036

Mining Claims and Permits	
Canada	28

Subsidiaries: Gate City Steel

Gate City Steel, a wholly-owned subsidiary of Husky, is engaged in warehousing, distribution and processing of steel in the United States from twelve plants in the midwest and Rocky Mountain regions.

Although Gate City Steel revenues were increased in 1976 over the previous year's results, pre-tax earnings declined as highly competitive conditions in the steel industry throughout the year were reflected by lower margins. Sales for 1976 increased to $69.1 million from $61.8 million in 1975, and earnings before taxes were $4.5 million compared to $6.1 million the previous year.

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In 1976, our steel subsidiary completed the largest capital program in its history. Gate City's program of investment for growth began in the first quarter with the purchase of a one million square foot "mother" warehouse at Gary, Indiana and the start of construction for additional space at the Salt Lake City plant.

The Gary plant substantially increases Gate City's warehousing capacity and provides a central warehousing function for the company's other plants. Strategically located close to a number of large steel mills, the new plant also established Gate City's capability as a major processor of heavy gauge steel coils.

The new plant also gives Gate City greatly increased capability for decoiling and processing heavy gauge steel coils and allows for integrated levelling, slitting, shearing, stacking, conveying and banding steel and aluminum.

In the capital work program, the addition to the Salt Lake City plant, begun in the first quarter, was completed by late summer while pre-construction work had commenced for a new plant to replace the existing facility at Boise, Idaho.

Gate City Steel's total capital expenditure program, including the Gary acquisition, the Salt Lake City and Boise projects and substantial additions to production and handling equipment, exceeded $10 million in 1976.

1 Flame cutting steel stock to specifications. 2 Mechanical stacker. 3 H. H. Millar, Husky Oil Director and J. W. Rimmer, President, Gate City Steel.

Husky Industries

Husky Industries, an 80 per cent Husky owned subsidiary, manufactures barbecue briquets and activated carbon, widely used in industrial and municipal water purification. The company has nine plants located mainly in the mid-western and eastern regions of the United States.

In 1976, Husky Industries completed its third successive year of record high financial results with improvements in both earnings and total sales revenues over 1975 figures. Pre-tax earnings at $5.0 million were up 58 per cent in 1976 while total sales revenues increased by 31 per cent in the same period. These results reflected the continuing record high performance of both briqueting and industrial carbon operations.

An expansion program begun early in 1976 increased the production of the Ocala, Florida plant by 30 per cent. Production was also increased at the Dickinson, North Dakota plant with the installation, completed by mid-year, of a new multi-hearth furnace. A second multi-hearth furnace is being installed and will come on stream in mid-1977.

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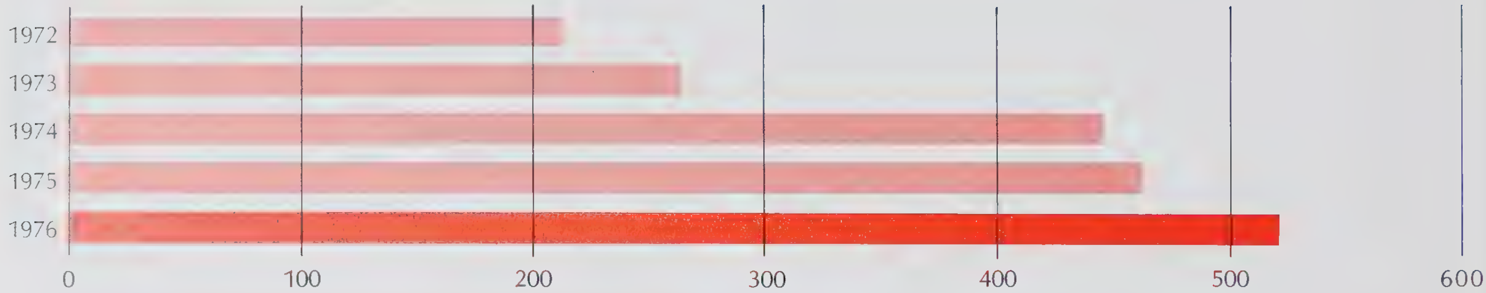
Programs for increased production of both charcoal briquets and activated carbon and aggressive marketing policies have contributed significantly to the improvements in Husky Industries performance in recent years.

1 Some of Husky Industries' consumer products. 2 Machine stitching, Grill Time briquet bags. 3 Loading briquets for distribution. 4 Ocala, Florida plant. 5 Center: J. P. Keeter, President, Husky Industries.

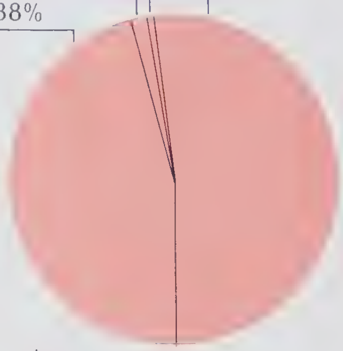
Financial Review

Gross Operating Revenues *In Millions of Dollars*



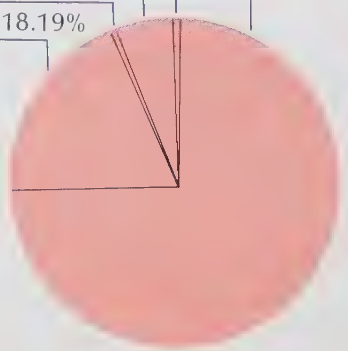
Source of Funds

Operations 51.83%
Issue of shares .54%
Sale of assets 1.25%
Issue of long-term debt 46.38%



Use of Funds

Property, plant and equipment 74.64%
Other .59%
Dividends 6.27%
Retirement of preferred shares .31%
Reduction of long-term debt 18.19%



Market Information

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
6% cumulative redeemable Pref.				
Series A				
1976 High	35	34½	33	34
Low	33⅛	33⅛	32½	32½
1975 High	37	36	36	33⅛
Low	33	33	32	31¾
Series B				
1976 High	35	34	33¼	32⅝
Low	32	33	32¼	32⅛
1975 High	34¼	36	34	32
Low	28½	31½	31¾	31
Common Shares (per Toronto Exchange)				
1976 High	22⅜	21½	20⅞	20½
Low	17⅝	19¾	16¼	16⅜
1975 High	17⅜	21⅛	20⅝	19¾
Low	11¼	14¼	17	16¾
Dividends per Common Share				
1976		40		40
1975		25		40

Management's Discussion and Analysis of the Financial and Operating Summary

The following is Management's description of certain significant factors which have affected the Company's operations for 1976 and 1975 compared with the previous year.

1976 Compared to 1975

The Company's net earnings for the year ended December 31, 1976 were $30 million, or $3.02 per share, compared to $36 million, or $3.64 per share, for 1975. The decline in 1976 earnings was primarily due to increased cost of crude oil supplies to Husky's United States refineries that was not recovered in asphalt and heavy fuel oil markets.

Sales and operating revenues increased 15% to $522 million. Even though the volume of net crude oil and natural gas produced declined 15% and 6% respectively, production revenues increased by 8% primarily due to higher prices.

Net Canadian natural gas production declined 8% while gross production remained almost unchanged, mainly due to increased provincial royalties in Alberta.

Net crude oil and natural gas produced in the United States remained relatively unchanged from 1975 levels.

Net crude oil volumes produced declined 22% in Canada resulting mainly from a seven month production curtailment in the Lloydminster area and a change in the Saskatchewan government taxing structure, effective November 1, from a surcharge to a royalty basis. Production curtailment was necessary because competitive market conditions and Canadian export regulations restricted the market for Lloydminster heavy crude. In February, 1977 the Company announced plans to immediately remove all prorationing in the area, in response to positive indications from the United States Federal Energy Administration and the National Energy Board of Canada that current import and export regulatory problems will soon be resolved.

Additionally, the Company has recently entered into a 3½ year arrangement, effective July 1, 1977, to supply another Canadian refiner with 25,000 barrels of Lloydminster blended oil per day at prevailing market prices. This represents an increase of 17,000 barrels per day from volumes currently being delivered.

Revenues from the sale of refined products increased 13% resulting from both volume and price increases. The volume of gasoline and other light products increased 8% in the United States and 29% in Canada. Higher volumes reflect the Company's conversion to self service stations, the institution of a "rack pricing" system in Canada and an increased availability of products for sale. Additionally, the Company acquired the refining and marketing assets of another Canadian oil company effective November 1, 1976, which increased sales volumes during the last two months.

Revenues from steel operations increased 12% to $69 million in the current year. However, earnings before income taxes were down 27%. The steel industry, in general, was in a slump.

Carbon operations had a record year in 1976. Sales increased 31%, including volume increases of 18% in charcoal briquets and 9% in activated carbon. Earnings before income taxes were up 58% to $5 million.

Costs and operating expenses increased 21% resulting in a lower profit margin for refined petroleum products and from steel operations. The profit margin has declined for all refined

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1 R. M. McManis, Executive Vice-President. 2 R. Strother, Senior Vice-President.

petroleum products because market conditions have not allowed selling prices to rise as rapidly as crude oil and refinery operating costs. Lower profit margins have largely been offset by higher sales volumes for light oil products such as gasoline. However, the market value of asphaltic products in the United States has declined substantially from corresponding 1975 values, resulting in a reduction in the Company's earnings. The Company is altering some of its refinery runs to reduce the yield of asphalt products.

Selling and general expenses increased 16%, mainly from inflationary pressures, some expanded business activity and ever increasing governmental reporting requirements.

Interest expense — net of interest income was up 24% over 1975 as a result of increased borrowing, both short and long-term. Certain long-term interest rates were also higher in 1976.

Other expenses, which were up $5,795,000 (19%), include depreciation, depletion and amortization increases of $2,304,000 or 7%. Depreciation and amortization increased 11% because of greater investment in depreciable assets. Depletion increased only 3% because production volumes of crude oil and natural gas were down as explained above. The overall depletion rate actually increased 15% which reflects the higher costs of finding new reserves.

Other expenses also include minority interest in earnings of subsidiaries which was $520,000 greater in 1976. The sale of the minority interest was consumated in July, 1975. The subsidiary earnings were greater in 1976 and the greater portion of the earnings were generated in the first half of the year.

Income taxes declined $5,737,000 (18%) which corresponded to the decline in pretax earnings. The effective income tax rate remained fairly constant at 46%.

Capital expenditures were $99,407,000 in 1976, an increase of $31,276,000 over 1975. Approximately two-thirds of the capital expenditures were financed from operations, the balance from long-term debt.

The ratio of net earnings from operations, expressed as a percent return on average total assets, declined to 6.2% from 8.7% in 1975. The decline reflects significant capital expenditures and a decline in profit margins in 1976.

1975 Compared to 1974

The Company's 1975 net earnings were $36 million or $3.64 per share, compared to $29.5 million or $2.98 per share for the previous year. The increase in earnings is primarily attributable to improvements in United States petroleum operations and to increased production income in Canada.

Sales and operating revenues increased $19,085,000 (4%), principally as a result of price increases. While the net volume of crude oil production increased about 2%, net production volume of natural gas decreased 10% and the volume of refined product sold decreased approximately 5%, The decrease in net natural gas production reflects significantly higher provincial royalties in Canada. Additionally, revenues from steel activities decreased 22% because of the light demand for steel during the earlier part of 1975. Revenues from charcoal activities increased 33% including a volume increase of approximately 2%.

Costs.and operating, selling and general expenses decreased $697,000, mainly as a result of decreased costs from steel activities amounting to approximately $16,000,000 (25%). A general price increase including labor, crude oil, refined products purchased, etc., caused other costs to increase approximately 5%.

Other expenses, which increased $3,983,000 (15%), include additional depreciation, depletion and amortization of $5,281,000 (19%). The increased depreciation of $2,778,000 resulted from additional investment in depreciable assets combined with the higher rate for certain properties depreciated on a unit-of-production method, which resulted from revaluation of related petroleum reserves. Depletion increased $2,502,000, reflecting greater expenditures for exploration in 1975. Additionally, miscellaneous income increased $1,298,000, caused mainly by gain from the sale and disposal of assets, an insurance settlement, and net gains on foreign currency transactions, each more favorable in 1975 than in 1974.

Income taxes increased $8,408,000 (36%) reflecting higher earnings and, in the United States, the loss of statutory percentage depletion and the utilization of all remaining investment tax credit carry forwards. Deferred income taxes increased 81% primarily because of the increased exploration activity and the adoption of the last-in, first-out method of valuing inventories in Canada in 1974.

Capital expenditures for 1975 of $68,131,000 were $6,250,000 greater than in 1974. Exploration and development expenditures amounted to $50,912,000 in 1975 compared to $38,070,000 in the previous year. Capital expenditures in 1975 were financed out of working capital leaving long-term debt relatively unchanged.

The ratio of net earnings from operations, expressed as a percent return on average total assets invested during each of the last 5 years, has improved from a low of 2.9% in 1971 to 8.7% in 1975.

	1976		1975		1974		1973		1972	
	Sales	Earnings	Sales	Earnings	Sales	Earnings	Sales	Earnings	Sales	Earnings
Lines of Business										
(in millions)										
Petroleum production, refining and marketing										
Canada	$145.7	40.5	109.3	39.0	101.2	31.1	69.0	19.5	54.5	9.5
United States	272.0	5.8	256.1	19.3	234.3	13.5	122.7	4.2	102.1	1.5
Steel warehousing, processing and other	69.1	4.5	61.8	6.0	79.3	7.4	46.2	4.9	31.9	1.9
Briqueting	35.6	5.0	27.2	3.2	20.5	0.6	14.7	(2.0)	15.8	0.5
	$522.4	55.8	454.4	67.5	435.3	52.6	252.6	26.6	204.3	13.4
Income taxes and extra-ordinary items		25.8		31.5		23.1		10.3		4.3
Net earnings		30.0		36.0		29.5		16.3		9.1

	1976	1975	1974	1973	1972
			(thousands of dollars)		
Capital Expenditures					
Exploration	$21,388	19,664	16,989	10,679	8,038
Producing properties and pipeline facilities	21,004	31,248	21,081	18,037	9,732
Refining and marketing	42,961	10,078	20,376	12,515	8,485
Steel and other facilities	14,054	7,141	3,435	5,505	8,789
	$99,407	68,131	61,881	46,736	35,044

Financial and Operating Summary

	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967
Financial (thousands of dollars except per share figures)										
Sales and operating revenues	**$522,357**	454,391	435,306	252,598	204,324	184,185	176,226	163,493	153,663	90,197
Equity in earnings of Empire State Oil Company	—	—	—	—	—	1,494	758	—	—	—
	522,357	454,391	435,306	252,598	204,324	185,679	176,984	163,493	153,663	90,197
Cost of sales and operating expenses	**385,598**	318,619	321,694	173,215	143,456	130,746	128,821	117,231	108,291	57,887
Selling, general and administrative expenses	**32,891**	28,249	25,871	20,606	18,107	15,937	14,949	14,443	14,819	9,514
Interest (net of interest income)	**11,693**	9,413	8,561	8,249	8,637	9,887	9,261	8,264	6,981	4,486
Other (including depreciation, depletion and amortization)	**36,387**	30,592	26,609	23,954	20,651	18,122	16,836	15,690	15,276	10,710
Other (including depreciation, etc.)	**466,569**	386,873	382,735	226,024	190,851	174,692	169,867	155,628	145,367	82,597
Earnings before income taxes and extraordinary items	**55,788**	67,518	52,571	26,574	13,473	10,987	7,117	7,865	8,296	7,600
Income taxes										
Current	**18,136**	21,550	17,592	1,914	(2,686)	72	143	—	—	—
Deferred	**7,627**	9,950	5,500	8,339	7,042	2,469	649	1,615	3,594	3,997
	25,763	31,500	23,092	10,253	4,356	2,541	792	1,615	3,594	3,997
Earnings before extraordinary items	**30,025**	36,018	29,479	16,321	9,117	8,446	6,325	6,250	4,702	3,603
Extraordinary items — net	—	—	—	—	1,338	—	(1,033)	—	1,977	474
Net earnings	**30,025**	36,018	29,479	16,321	10,455	8,446	5,292	6,250	6,679	4,077
Dividends on preferred shares	**523**	559	587	612	644	665	694	716	740	1,616
Earnings for common shares	**$ 29,502**	35,459	28,892	15,709	9,811	7,781	4,598	5,534	5,939	2,461
Common shares outstanding (in thousands) (weighted average from 1968)	**9,784**	9,730	9,704	9,579	9,536	9,416	9,411	9,405	8,723	6,644
Earnings per common share										
From operations	**$ 3.02**	3.64	2.98	1.64	.89	.83	.60	.59	.45	.30
Extraordinary items — net	—	—	—	—	.14	—	(.11)	—	.23	.07
	$ 3.02	3.64	2.98	1.64	1.03	.83	.49	.59	.68	.37
Dividends per common share	**$ .80**	.65	.40	.15	.15	.15	.15	.30	.30	.30
Preferred shares outstanding at par value	**8,443**	9,081	9,582	9,991	10,388	11,826	12,221	12,620	12,392	27,376
Working capital provided by operations	**73,953**	78,016	62,368	49,155	33,820	29,282	23,288	24,244	24,165	18,672
Capital expenditures	**99,407**	68,131	61,881	46,736	35,044	34,656	47,209	39,535	36,103	39,811
Working capital	**49,248**	39,746	33,972	36,359	29,232	15,999	16,750	15,388	22,901	15,072
Long-term debt	**142,543**	100,473	100,599	101,220	98,415	111,144	109,052	100,371	91,719	76,257
Operations										
Production — Daily Average										
Net crude oil and gas liquids — bbls	**37,301**	43,949	43,015	43,984	41,482	38,345	33,265	31,663	30,742	26,197
Natural gas — mcf	**55,618**	58,994	65,460	73,868	76,539	67,271	49,293	46,236	47,571	45,828
Refining and marketing — Daily Average Barrels										
Refinery runs	**55,719**	56,220	59,116	50,828	48,624	50,185	50,044	47,893	45,802	20,248
Refined product sales	**64,895**	60,541	63,958	58,662	55,330	53,285	56,961	52,730	48,662	21,750

HUSKY OIL LTD. AND SUBSIDIARIES

Consolidated Statements of Earnings

(Stated in thousands of dollars)

	Year ended December 31, 1976	1975
Sales and operating revenues	**$522,357**	454,391
Costs and expenses		
Cost of sales and operating expenses	**385,598**	318,619
Selling, general and administrative expenses	**32,891**	28,249
Interest (net of interest income of $504,000 in 1976 and $644,000 in 1975)	**11,693**	9,413
Miscellaneous — net	**1,176**	(1,795)
Depreciation and amortization	**18,466**	16,570
Depletion (note 4)	**16,204**	15,796
Minority interest in earnings of consolidated subsidiary (note 7)	**541**	21
	466,569	386,873
Earnings before income taxes	**55,788**	67,518
Income taxes (note 6)		
Current	**18,136**	21,550
Deferred	**7,627**	9,950
	25,763	31,500
Net earnings	**$ 30,025**	36,018
Earnings per common share		
Basic	**$3.02**	3.64
Fully diluted	**$2.71**	3.24

See accompanying notes to consolidated financial statements.

HUSKY OIL LTD. AND SUBSIDIARIES

Consolidated Statements of Other Paid-in Capital and Retained Earnings

(Stated in thousands of dollars)

	Year ended December 31,			
	Other Paid-in Capital		Retained Earnings	
	1976	1975	1976	1975
Balance at beginning of year	**$74,146**	73,250	**98,935**	70,137
Add				
Credit (charge) arising from sinking fund redemption of preferred shares			**(6)**	88
Excess of consideration received over par value of common shares issued (note 8)	**728**	896		
Net earnings			**30,025**	36,018
	74,874	74,146	**128,954**	106,243
Deduct				
Cash dividends				
Preferred shares			**523**	559
Common shares (note 9)			**7,827**	6,330
Provision for redemption of preferred shares			**419**	419
	—	—	**8,769**	7,308
Balance at end of year	**$74,874**	74,146	**120,185**	98,935

See accompanying notes to consolidated financial statements.

HUSKY OIL LTD. AND SUBSIDIARIES

Consolidated Balance Sheets

(Stated in thousands of dollars)

Assets

	December 31, 1976	1975
Current assets		
Cash	**$ 10,887**	5,510
Accounts and notes receivable	**82,240**	66,029
Inventories at lower of cost and net realizable value (note 3)	**70,070**	57,104
Prepaid expenses	**907**	699
Total current assets	**164,104**	129,342
Notes and contracts receivable and miscellaneous assets — at cost less amounts written off	**6,852**	6,873
Unrecovered costs — Santa Barbara project (note 4)	**7,207**	7,207
Property, plant and equipment — at cost (note 5)		
Oil and gas properties and equipment	**291,933**	262,411
Refining, manufacturing, marketing, transportation facilities and other assets	**237,373**	182,051
Accumulated depreciation and amortization	**(120,171)**	(105,616)
Accumulated depletion	**(62,774)**	(56,425)
	346,361	282,421
Unamortized debt issue costs	**3,334**	3,387
Other intangible assets — at cost less amounts written off	**2,044**	2,318
	$529,902	431,548

See accompanying notes to consolidated financial statements.

Liabilities and Shareholders' Equity

	December 31, 1976	1975
Current liabilities		
Notes payable to banks	**$ 27,250**	9,500
Accounts payable and accrued liabilities	**74,604**	63,772
Income taxes payable (note 6)	**3,703**	10,124
Long-term debt due within one year (note 5)	**9,299**	6,200
Total current liabilities	**114,856**	89,596
Long-term debt (note 5)	**142,543**	100,473
Deferred credits		
Deferred income taxes (note 6)	**53,767**	45,140
Other	**1,128**	1,292
	54,895	46,432
Minority interest in consolidated subsidiary (note 7)	**1,960**	1,419
Shareholders' equity (note 8)		
Cumulative, redeemable preferred shares, par value $50; authorized 623,550 shares, issued 168,861 shares in 1976 and 181,612 shares in 1975	**8,443**	9,081
Common shares, par value $1; authorized 40,000,000 shares, issued 9,803,113 shares in 1976 and 9,761,433 shares in 1975	**9,803**	9,761
Undistributable capital surplus arising from purchase and redemption of preferred shares	**2,343**	1,705
Other paid-in capital	**74,874**	74,146
Retained earnings	**120,185**	98,935
	215,648	193,628
Commitments and contingencies (notes 12 and 13)		
	$529,902	431,548

Approved on behalf of the Board W. D. Dickie, Q.C., Director James E. Nielson, Director

HUSKY OIL LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Financial Position

(Stated in thousands of dollars)

	Year ended December 31, 1976	1975
Funds provided		
Net earnings	**$ 30,025**	36,018
Add items not requiring working capital		
Depreciation, depletion and amortization	**34,670**	32,366
Deferred income taxes	**8,627**	9,950
Minority interest	**541**	21
Other	**90**	(339)
Working capital provided by operations	**73,953**	78,016
Proceeds from sale of minority interest	**—**	1,000
Issue of common shares	**770**	946
Sale of assets	**1,790**	1,916
Issue of long-term debt	**66,179**	8,095
	142,692	89,973
Funds used		
Additions to property, plant and equipment	**99,407**	68,131
Reduction in long-term debt	**24,226**	8,355
Retirement of preferred shares	**425**	331
Dividends		
Preferred shares	**523**	559
Common shares	**7,827**	6,330
Increase in notes receivable and miscellaneous assets	**562**	780
Other	**220**	(287)
	133,190	84,199
Increase in working capital	**$ 9,502**	5,774
Changes in components of working capital		
Increase (decrease) in current assets		
Cash	**$ 5,377**	(4,672)
Receivables	**16,211**	4,090
Inventories	**12,966**	3,305
Prepaid expenses	**208**	369
	34,762	3,092
Increase (decrease) in current liabilities		
Notes payable	**17,750**	(1,770)
Accounts payable and accrued liabilities	**10,832**	5,562
Income taxes payable	**(6,421)**	(6,418)
Long-term debt due within one year	**3,099**	(56)
	25,260	(2,682)
Increase in working capital	**$ 9,502**	5,774

See accompanying notes to consolidated financial statements.

HUSKY OIL LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 1976 and 1975

1. Accounting Policies

The consolidated financial statements include the accounts of all subsidiaries after elimination of significant inter-company accounts and transactions. United States subsidiaries are included at $1.00 U.S. = $1.00 Cdn. The Canadian dollar was quoted in New York City at $0.9916 U.S. = $1.00 Canadian at December 31, 1976 and $0.9840 U.S. = $1.00 Canadian at December 31, 1975.

The companies employ the "full-cost" method of accounting and capitalize all North American exploration and reserve development costs. These costs are depleted on composite unit-of-production methods based upon proved developed reserves, as estimated by company engineers.

The cost of acquiring oil and gas interests outside of North America, and all mining interests, have been capitalized pending the outcome of exploration in each area of interest. These costs are being amortized at an annual rate of 20% pending reserve development. Unamortized costs will be depleted by the method set forth above if sufficient reserves are developed. The unamortized costs of an abandoned area are charged against earnings at the time of abandonment. Unamortized costs at December 31, 1976 and 1975 amounted to $8,164,000 and $3,951,000 respectively.

Depreciation of certain producing lease equipment is provided by the unit-of-production method. Depreciation of substantially all other depreciable assets is provided by the straight-line method at rates based upon their estimated useful lives as follows:

Classification	Rate
Refining and marketing facilities including buildings and refinery equipment	2.5 - 20%
Transportation facilities and equipment	5.0 - 50%
Lease equipment (excluding equipment depreciated by unit-of-production method)	7.14 - 10%
Other depreciable assets	Various

Substantially all inventories, excluding materials and supplies which are stated at average cost, are valued at cost on a last-in, first-out basis.

Other intangible assets with limited economic lives are being amortized on a straight line basis over their estimated lives.

The companies follow the tax allocation basis of accounting for all timing differences between net earnings and taxable income.

The retirement and pension plans of the Company and its subsidiaries are contributory and are available to substantially all permanent employees. The policy is to fund accrued pension costs as determined by actuarial studies. The unfunded past service costs are being funded and charged to operations over periods ranging from 10 to 20 years.

Basic earnings per common share are based on the weighted average number of common shares outstanding during the year. Fully diluted earnings per share are computed as if all outstanding options, warrants or conversion privileges were exercised at the beginning of the year.

2. Acquisition

A subsidiary company purchased the Canadian refining and marketing assets of another oil company on November 1, 1976, for approximately $38,600,000.
The assets acquired are as follows (in thousands):

Current assets	$ 5,400
Land	11,000
Plant and equipment	22,200
	$38,600

Land and plant and equipment include a refinery at Prince George, British Columbia and marketing outlets in Western Canada. The current assets consist mainly of inventories.

The total consideration given approximated $38,190,000 in long-term loans (see note 5) and $410,000 in current funds.

3. Inventories

The major categories of inventories at December 31, are summarized below:

	1976	1975
	(in thousands)	
Crude oil and refined oil products	$38,084	27,594
Steel and steel products	16,510	15,585
Carbon briquets and raw materials	7,311	7,199
	61,905	50,378
Materials and supplies	8,165	6,726
	$70,070	57,104

Had the first-in, first-out method been used to value inventories, the amounts would have been approximately $22,709,000 and $22,699,000 higher than reported at December 31, 1976 and 1975.

4. Unrecovered Costs — Santa Barbara Project

Unrecovered costs of the Santa Barbara project represent the unamortized cost of oil and gas leases off the coast of California acquired in 1968 which expired in 1973. In February, 1969, the Secretary of the Interior of the United States of America amended the regulations relating to drilling for oil and gas on

Husky Oil 1976 Annual Report

General

Recently there have been a number of articles in the press concerning heavy oil and the apparent under utilization in the petroleum market for this type of crude oil. It is gratifying to see long overdue attention being given to heavy crude because we believe the potential it holds for North America's energy future is significant.

It is ironic that at a time when Canada and the United States are becoming more dependent upon imported oil, domestic production of heavy crude oil in both countries is being curtailed and new development restricted due to the lack of markets.

North America's heavy oil reserves offer one of the viable solutions to lessening both countries' dependence upon overseas sources of supply. With adequate domestic markets, development of these heavy reserves could add significantly to our domestic energy supply. What is needed is an element of certainty in the national policies of both countries to encourage the large amounts of capital investment and to allow for the long lead times necessary to bring these supplies to the marketplace.

Husky has, and is continuing to posture itself to capitalize upon the heavy oil frontier. In addition to continuing to bolster our integrated operations, we are looking toward new approaches and methods to produce, process and market heavy oils. The recent announcement concerning the proposed Lloydminster refinery is an example of this approach which includes looking at different technologies and processes for the best method of moving heavy crude oil to market. We are working to minimize the seasonal market variations of the heavy oil portion of our refining output.

In other areas of operations we are making significant gains. Natural gas is becoming an increasingly more important part of our exploration and production activities. Canada's approach to pricing natural gas on an equivalent BTU basis with oil has established significant price increases for Canadian production. It now appears that recognition is being given to the need for increased natural gas prices in the United States. Hopefully, the proposed increases will be allowed to take effect.

In past reports I have expressed the thought that many challenges are facing our industry and our company. Today that is still true. We are being confronted with increased government regulation on the one hand and increased uncertainty on the part of various governments on the other. This combination presents new challenges in an atmosphere of constant change. As I have said before and would like to re-emphasize, Husky is working to take advantage of these challenges with all of our resources.

The most important asset we have for capitalizing on these opportunities is our employees. They are innovative and dedicated to making our company grow and prosper and our success is due in large measure to their efforts.

Sincerely,

James E. Nielson

JAMES E. NIELSON,
President

August 17, 1976.

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HUSKY OIL LTD.

HUSKY

Quarterly Report To Shareholders

Six Months Ended June 30, 1976

To The Shareholders:

Financial

Husky's net earnings for the first six months of 1976 at $13.7 million, or $1.38 per share, compared to $16.2 million, or $1.64 per share for the same period in 1975. The net earnings are after a provision for cash and deferred income taxes of $13.2 million in 1976 compared to $12.3 million for 1975.

Sales and operating revenues increased to $249.8 million from $202.8 million for the first six months of last year. Cash flow from operations was $34.2 million compared to $34.6 million for the similar period in 1975.

The decline in earnings was principally due to increased United States refinery crude oil costs which were not recovered in heavy fuel oil and asphalt markets. The performance of other company operations were generally equal to, or improved over last year's levels.

Exploration

An exploratory well, drilled on Vermilion Block 329 offshore Louisiana in the Gulf of Mexico, discovered a significant volume of natural gas. Husky acquired the block with a 73.4 per cent royalty bid in a 1974 offshore lease sale. Of several natural gas zones encountered in the drilling, three between 5,000 and 6,000 feet were tested for deliverability. The well has been temporarily suspended as an underwater disconnect pending further development of the block.

Husky is continuing evaluation of two successful exploratory wells drilled in Wyoming. The Fuller Reservoir well in the Wind River Basin has encountered several natural gas zones in its drilling to total depth of 17,000 feet. Two of these zones — at 4,000 and 5,000 feet — were drill stem tested and flowed natural gas at rates of 4.3 million cubic feet per day and 3.8 million cubic feet per day respectively. Additional deeper gas zones are to be tested in the third quarter.

HUSKY OIL LTD.
and Subsidiaries

CONSOLIDATED STATEMENTS OF EARNINGS

	Six months ended June 30, 1976	Six months ended June 30, 1975	Increase (Decrease) %
Sales and operating revenues	$249,837,000	202,842,000	23
Costs and expenses			
Cost of sales and operating expenses	183,372,000	140,619,000	30
Selling, general and administrative expenses	16,777,000	13,999,000	20
Interest (net of interest income of $247,000 in 1976 and $357,000 in 1975)	5,585,000	4,802,000	16
Miscellaneous — net	(459,000)	(490,000)	6
Depreciation and amortization	8,802,000	8,111,000	8
Depletion	8,453,000	7,303,000	16
Minority interest in earnings of consolidated subsidiary	405,000	—	—
	222,935,000	174,344,000	28
Earnings before income taxes	26,902,000	28,498,000	(6)
Income taxes			
Current	10,367,000	9,186,000	13
Deferred	2,795,000	3,100,000	(10)
	13,162,000	12,286,000	7
Net earnings	$ 13,740,000	16,212,000	(15)
Earnings per common share			
Basic	$1.38	1.64	(16)
Fully diluted	$1.24	1.47	(16)

OPERATING SUMMARY (Daily Averages)	1976	1975	%
Net crude oil and gas liquids — bbls	40,007	42,300	(5)
Net natural gas — mcf	60,476	64,184	(6)
Refining throughput — bbls	53,866	51,039	6
Refined product sales — bbls	59,595	52,087	14

Note: Figures are unaudited and accounts of U.S. subsidiaries are included at $1 U.S. = $1 Canadian.

HUSKY OIL LTD.
and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Six months ended June 30, 1976	1975
Funds provided by		
Operations	$34,211,000	34,642,000
Long-term debt	33,675,000	7,150,000
Other	835,000	906,000
	68,721,000	42,698,000
Funds used to		
Acquire property, plant and equipment	37,159,000	27,505,000
Retire long-term debt	18,449,000	4,365,000
Pay dividends	4,178,000	2,711,000
Other	(792,000)	1,094,000
	58,994,000	35,675,000
Funds added to working capital	$ 9,727,000	7,023,000

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 1976	1975
Current assets	$152,432,000	135,695,000
Properties, plant and equipment — net	301,877,000	259,344,000
Other assets	18,352,000	19,679,000
Total assets	$472,661,000	414,718,000
Current liabilities	$102,959,000	94,700,000
Long-term debt	115,757,000	103,716,000
Deferred credits, etc.	50,828,000	39,330,000
Shareholders' equity	203,117,000	176,972,000
Total liabilities and shareholders' equity	$472,661,000	414,718,000

See footnote to Consolidated Statements of Earnings.

An exploratory well drilled in Park County near Cody, Wyoming, discovered oil and has been cased for production.

Husky's exploration program for shallow natural gas in eastern and central Alberta has been very successful. A number of wells are currently being tied into gathering systems and will begin delivering natural gas in 1976. Because of the successful results, this program is being intensified.

In Lambton County, Ontario, a well drilled in Enniskillen Township as a follow-up to an earlier indicated discovery, measured natural gas at a flow rate of 16.5 million cubic feet per day. The original discovery on this structure tested natural gas at a rate of 1.5 million cubic feet per day. Several wells drilled in the exploration program, which began in 1973, have encountered oil and natural gas. Husky has a 75 per cent interest in 60,000 acres in Lambton County.

Husky's international exploration activities during the second quarter included a seismic program conducted as a follow-up to the NIDO No. 1 Philippine offshore discovery well. This well established the presence of hydrocarbons on the northwest Palawan shelf where Husky has a substantial land interest. Husky will participate in the drilling of another well in the area later in 1976.

In the North Sea, Husky has a ten per cent working interest in a well drilled on Block 16-26 of the United Kingdom sector. The well, which encountered hydrocarbons in two zones, has been classified as non-commercial as a result of production testing. The company also participated in exploratory wells drilled and abandoned on Block 21-7 in the United Kingdom sector and on Block G6 in the German sector.

Production

Gross crude oil production averaged 47,100 barrels per day during the first half of 1976, compared to 50,000 barrels per day in the first half of

1975. Net crude oil production averaged 40,000 barrels per day, compared to 42,300 barrels per day for the first six months last year. The reduction in crude oil volumes was primarily due to pro-rated cutbacks of heavy oil production in the Lloydminster area during the first quarter.

Gross natural gas production in the first half of 1976 was essentially unchanged at 80.2 million cubic feet per day. Net natural gas production averaged 60.5 million cubic feet per day in 1976, compared to 64.2 million cubic feet per day last year. The decline in net natural gas production partly reflects production prorationing from several oil-gas fields in Alberta.

The company's oil and natural gas production cash operating income in 1976 improved almost 19 per cent over the same period last year despite the prorationing in Canada. This income improvement was due primarily to improved 1976 oil and natural gas prices and to increased production from Husky's United States non-operated properties.

In Canada, the federal and provincial governments agreed on a crude oil price increase of $1.05 per barrel to be effective July 1, 1976. Part of the crude price increase is to be passed on to the producer and will be reflected in operating results during the last half of 1976.

Refining and Marketing

Refinery throughput during the first six months of 1976 increased to 53,900 barrels per day from 51,000 barrels per day during the first half of 1975. Refined product sales averaged 59,600 barrels per day, an increase of more than 7,500 barrels per day over sales for the first half of 1975.

Both light and heavy oil sales volumes were up 14 per cent in 1976. Heavy fuel oil and asphalt revenues declined drastically this year during a period of extremely soft market conditions in the Rocky Mountain area of the United States.

United States gasoline and diesel fuel markets, soft in the first quarter this year, were improved in the second quarter, primarily reflecting the historical summertime increase in domestic travel activity.

Early in the second quarter, Husky announced the signing of an agreement for the acquisition of the refining and marketing operations of Union Oil Company of Canada Limited. The acquisition, which would add 110 service stations and an 8,000 barrel per day refinery to Husky's Canadian refining and marketing system, is presently under review by the Foreign Investment Review Agency in Canada. A decision is expected from the government agency within the third quarter.

As a result of recent changes in marketing conditions, construction economics and possible changes in type of refinery design, Husky has deferred previously announced plans for the construction of a new 30,000 barrel per day refinery to utilize heavy oil from the Lloydminster area. These changes have prompted Husky to examine alternative designs for a new Lloydminster facility which could have the future capability of handling all types of heavy crude oils from Western Canada.

Husky will continue to work toward its stated objective of balancing its Canadian refining and marketing operations with its Canadian crude oil production volumes.

Husky's program of upgrading and remodeling existing marketing outlets continued according to schedule in the second quarter and the conversion of certain outlets to self-service is continuing to result in improved sales volumes at the converted locations.

Husky has joined with several other companies to study the feasibility of a pipeline to transport Alaskan North Slope crude oil from the Pacific coast to the midwest area of the United States. The pipeline is anticipated to originate at Kitimat, British Columbia and run to Edmonton, Alberta where it would connect with the existing Interprovincial Pipeline System. We believe this approach could be the most economically feasible of the current proposals for moving Alaskan North Slope oil to the interior.

Gate City Steel

Start-up costs at Gate City Steel's new plant at Gary, Indiana and continued highly competitive market conditions contributed to a reduction in earnings in the first half of 1976 compared to the first six months last year. Total sales this year, however, showed an 11 per cent increase over the first six months of 1975 and Gate City expects operating results to improve generally during the remainder of the year.

The Gary, Indiana plant is operating very well and becoming a significant contributor to sales and earnings. It is strategically located in an area where steel producers are currently expanding steel production capacity.

An addition to Gate City's Salt Lake City plant, begun in the first quarter, has been completed while pre-construction work has commenced for a new plant to replace the existing facility at Boise, Idaho.

Husky Industries

Husky Industries' record improvement in sales revenues and earnings continued during the second quarter of 1976. Total sales revenues for the first half of 1976 are up 39 per cent over the same period last year. Earnings for the first half this year improved 34 per cent over 1975 first half results.

The improvements are attributable to aggressive marketing policies and programs for increased production of both charcoal briquets and activated carbon.

An expansion program at the Ocala, Florida plant, designed to increase its production by 30 per cent, has been completed. At Dickenson, North Dakota, a new multi-hearth furnace, which will also increase production, has been installed and is now in operation.